

MESA COUNTY FEDERAL MINERAL LEASE DISTRICT

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2017

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INDEPENDENT AUDITOR’S REPORT

June 19, 2018

To the Board of Directors
Mesa County Federal Mineral Lease District
Grand Junction, Colorado

We have audited the accompanying financial statements of the governmental activities and the major fund of the Mesa County Federal Mineral Lease District (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Board of Directors
Mesa County Federal Mineral Lease District
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the major fund of the District as of December 31, 2017, and the respective change in financial position and the respective budgetary comparison for the governmental fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Chadwick, Steinkirchner, Davis & Co., P.C.

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MESA COUNTY FEDERAL MINERAL LEASE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2017

As management of the Mesa County Federal Mineral Lease District (the District), we offer to readers of these financial statements, this narrative overview and analysis of the financial activities of the District for the fiscal year ended December 31, 2017. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our basic financial statements to better understand the financial position of the District.

Financial Highlights

The District was created to distribute on an annual basis all the funds it receives from the Colorado Department of Local Affairs to areas within the District's service area that are socially or economically impacted by the development of energy fuels. \$796,245 was received by the District in 2017 and the District ended the 2017 year with \$2,013,864 in fund balance.

The District is an independent public body politic and corporate, with a perpetual existence.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements consisting of three components:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector businesses.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as **net position**. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund financial statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The

District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, which is considered to be a major fund. The basic governmental fund financial statements can be found on pages 8 and 9 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the District, assets exceeded liabilities by \$2,013,864 at December 31, 2017. The following summarizes the District’s net position at December 31:

| | | <u>2016</u> | <u>2017</u> |
|----------------|---------------------------|---------------------|---------------------|
| Current Assets | | \$ 2,417,299 | \$ 2,013,864 |
| | <i>Total Assets</i> | \$ 2,417,299 | \$ 2,013,864 |
| Net Position | | | |
| Unrestricted | | \$ 2,417,299 | \$ 2,013,864 |
| | <i>Total Net Position</i> | <u>\$ 2,417,299</u> | <u>\$ 2,013,864</u> |

Changes in Net Position – Governmental activities decreased the District’s net position by \$403,435 in 2017. The following summarizes the District’s change in net position for the years ended December 31:

| | <u>2016</u> | <u>2017</u> |
|--------------------------------------|---------------------|---------------------|
| REVENUES | | |
| General revenues | | |
| Federal mineral lease distribution | <u>\$ 809,830</u> | <u>\$ 796,245</u> |
| Total revenues | <u>809,830</u> | <u>796,245</u> |
| EXPENSES | | |
| Government | <u>1,666,537</u> | <u>1,199,680</u> |
| Total expenses | <u>1,666,537</u> | <u>1,199,680</u> |
| Change in Net Position | (856,707) | (403,435) |
| Net Position - beginning of the year | <u>3,274,006</u> | <u>2,417,299</u> |
| Net Position - end of the year | <u>\$ 2,417,299</u> | <u>\$ 2,013,864</u> |

Financial Analysis of the Government’s Funds

Governmental funds – The focus of the District’s governmental fund is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental fund reported committed funds of approximately \$1,075,000, an assigned fund balance of approximately \$875,000, and an unassigned balance of approximately \$80,000.

The District has one major governmental fund, the General Fund. This is the operating fund for the District. The fund distributes revenues received from the Colorado Department of Local Affairs to areas within the District's service area that are socially or economically impacted by the development of energy fuels. The fund balance ending December 31, 2017 was \$2,013,864.

General Fund Budgetary Highlights

The budget for the District was prepared using all aspects of State of Colorado statutes. The budget was reviewed and discussed at a noticed public meeting on October 11, 2017. On December 13, 2017 the Board of the District adopted and appropriated \$2,664,746 for General Fund expenditures for the 2018 year.

Economic Factors and the 2018 Budget

The 2018 operating budget is focused on fulfilling the mission of the District which is to distribute their funds to areas that are socially or economically impacted by the development, processing or energy conversion of fuels and minerals leased under the Federal Mineral Lands Leasing Act of February 1920, as amended.

Requests for Information

This financial report is designed to provide a general overview of District's finances. Questions concerning any of the information contained in this report or requests for additional information should be addressed to the Mesa County Federal Mineral Lease District, P.O. Box 3039, Grand Junction, CO 81502.

Mesa County Federal Mineral Lease District

STATEMENT OF NET POSITION

December 31, 2017

| | | |
|--------------|--------------------|---------------------|
| ASSETS | | |
| Cash | | \$ 2,013,864 |
| | Total Assets | <u>2,013,864</u> |
| NET POSITION | | |
| Unrestricted | | 2,013,864 |
| | Total Net Position | <u>\$ 2,013,864</u> |

The accompanying notes are an integral part of these statements.

Mesa County Federal Mineral Lease District

STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

| Functions/Programs | Program revenues | | | | Net (expense) revenue and change in Net Position |
|--------------------|------------------|-------------------------|--|--|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| General Government | \$ 1,199,680 | \$ - | \$ - | \$ - | \$ (1,199,680) |
| Total District | \$ 1,199,680 | \$ - | \$ - | \$ - | \$ (1,199,680) |
| | | | Federal Mineral Lease Distribution | | 796,245 |
| | | | Total general revenues | | 796,245 |
| | | | Change in net position | | (403,435) |
| | | | Net Position - beginning of the year | | 2,417,299 |
| | | | Net Position - end of the year | | \$ 2,013,864 |

The accompanying notes are an integral part of these statements.

Mesa County Federal Mineral Lease District

BALANCE SHEET - GENERAL FUND

December 31, 2017

ASSETS

| | | | |
|------|--------------|----|------------------|
| Cash | | \$ | 2,013,864 |
| | Total Assets | \$ | <u>2,013,864</u> |

FUND BALANCE

| | | | |
|-----------------------------------|---------------------|----|------------------|
| Committed | | | |
| Board created permanent fund | | \$ | 100,000 |
| Funds granted and not yet payable | | | 972,851 |
| Assigned to 2018 appropriations | | | 861,013 |
| Unassigned | | | <u>80,000</u> |
| | Total Fund Balances | \$ | <u>2,013,864</u> |

The accompanying notes are an integral part of these statements.

Mesa County Federal Minteral Lease District

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND - BUDGET TO ACTUAL

For the year ended December 31, 2017

| | Budgeted Amounts | | Actual | Variance with Final Budget Favorable (Unfavorable) |
|--|------------------|-------------|--------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Intergovernmental | \$ 769,338 | \$ 769,338 | \$ 796,245 | \$ 26,907 |
| Total Revenues | 769,338 | 769,338 | 796,245 | 26,907 |
| EXPENDITURES | | | | |
| General government | | | | |
| Grants | 2,861,094 | 2,861,094 | 1,133,824 | 1,727,270 |
| Administrative expenses | 67,700 | 73,500 | 65,856 | 7,644 |
| Total Expenditures | 2,928,794 | 2,934,594 | 1,199,680 | 1,734,914 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (2,159,456) | (2,165,256) | (403,435) | 1,761,821 |
| Fund Balance - beginning of the year | 2,254,505 | 2,254,505 | 2,417,299 | 162,794 |
| Fund Balance - end of the year | \$ 95,049 | \$ 89,249 | \$ 2,013,864 | \$ 1,924,615 |

The accompanying notes are an integral part of these statements.

MESA COUNTY FEDERAL MINERAL LEASE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Mesa County Federal Mineral Lease District (the District) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting financial reporting principles.

Financial Reporting Entity

The 2011 session of the Colorado General Assembly, passed HB11-1218 with the intent of permitting counties to create a Federal Mineral Lease District in order to maximize the amount of federal funding received by counties within the state. Mesa County Board of County Commissioners established the District on June 20, 2011.

The financial statements of the District include all of the integral parts of the District's operations in accordance with GASB Statement No. 61, *The Financial Reporting Entity* (GASB 61).

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and statement of activities which illustrate the District's financial position as a whole to demonstrate operational accountability and sustainability of the District as an entity and the change in the aggregate financial position resulting from activities of the period.

In the statement of net position, financial information is reflected on a full accrual basis of accounting and the economic resource measurement focus. The statement of activities demonstrates the degree to which the direct expenses of a function or a segment are offset by program revenues. This balance identifies the extent to which a government function or business segment is self-funded and the extent to which it draws from general District revenues. The District does not have program revenues and all revenue is reported as general revenue.

Fund Financial Statements

The accounts of the District are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

General Fund – The District has only one fund, the General Fund, which accounts for the financial resources of the District. The principal source of revenue is intergovernmental revenue. Primary expenditures are for administrative expenses and distribution of the federal funds received.

Basis of Presentation and Measurement Focus

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on a specific activity or attaining certain objectives.

MESA COUNTY FEDERAL MINERAL LEASE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation and Measurement Focus - Continued

Governmental funds typically are used to account for tax-supported activity using the current financial resources measurement focus and modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. The District reports one governmental fund.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires the District’s management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenditures (expenses). Actual results could differ from the estimates and assumptions used.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Fund Balance

The District reports fund equity in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the value of fund balance information by providing fund balance classifications which can be more consistently applied and by clarifying the existing governmental fund type definitions. The following classifications describe these categories:

- Non-Spendable – This classification includes resources which cannot be spent because they are non-spendable by form or contractually required to be maintained intact. The District did not have any non-spendable resources as of December 31, 2017.
- Restricted – This classification includes resources subject to externally enforceable limitations. The District did not have any restricted resources as of December 31, 2017.
- Committed – This classification includes resources constrained by limitations the government imposes upon itself. The District has classified amounts awarded as donations and funds dedicated to a board created permanent fund as committed resources as of December 31, 2017.
- Assigned – This classification includes resources that reflect a government’s intended uses. The District had assigned fund balance at December 31, 2017 for fund balance that has been budgeted for appropriation during 2018.
- Unassigned – This classification includes resources which reflect the residual fund balance of the General Fund.

Committed and Assigned fund balances are determined by the District’s Board of Directors (the Board) and modifications to these balances must be approved by a majority vote of the Board by passage of a resolution. Commitments are created through appropriation by the Board. When determining categories

MESA COUNTY FEDERAL MINERAL LEASE DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – continued

of fund balance, it is assumed that the type of expenditure determines the primary use of fund balance. Once the commitment or assignment is satisfied unassigned resources are used. The current order of resource use for spending unrestricted funds is: committed, assigned and unassigned when the object of the expenditures could be funded by either restricted or unrestricted funds.

NOTE 2 – BUDGET COMPLIANCE

State law requires a budget for the District. The budget must be balanced; expenditures cannot exceed total available revenues and fund balance. No spending agency may expend, or contract to expend, any monies in excess of the amounts appropriated in the appropriations.

The annual budget serves as the foundation for the District's financial planning and control. The budget is prepared in compliance with state statute and U.S. GAAP. The budget may be amended during the year through supplemental appropriations.

Expenditures may not legally exceed appropriations. Detailed line item records provide management the capability to monitor the budget.

NOTE 3 – DEPOSITS

The Colorado Public Deposit Protection Act (PDPA) governs the District's deposits of cash. The statutes specify eligible depositories for public cash deposits, which must be Colorado institutions and must maintain federal insurance on deposits held. Each eligible depository with deposits in excess of the insured levels must pledge a collateral pool of defined eligible assets, to be maintained by another institution or held in trust for all of its local government depositors as a group, with a market value equal to at least 102% of the uninsured deposits. The State Regulatory commissions for banks and savings and loan associations are required by statute to monitor the naming of eligible depositories and the reporting of uninsured deposits and assets maintained in the collateral pools. At year-end the bank balance was of deposits and assets maintained in the collateral pools. At year-end the bank balance was \$2,013,864 of which \$250,000 was covered by FDIC and the remaining \$1,763,864 was covered by PDPA.

NOTE 4 – TAX, SPENDING AND DEBT LIMITATIONS

Colorado voters passed an amendment to the State Constitution, Article X, Section 20, (the Amendment) commonly known as TABOR, which has several limitations including revenue raising, spending abilities, debt limitations, and other specific requirements of state and local governments. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR, and all revenue currently received by the District is TABOR exempt.

NOTE 5 – CONTRACTED SERVICES

To make the most efficient and effective use of their powers and responsibilities, the District utilizes a third-party accounting firm to maintain financial records.